

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS ALMATY 000933

SIPDIS

DEPARTMENT FOR EUR/CACEN JMUDGE, EUR/ACE JMCKANE
TREASURY FOR CENTRAL ASIA DESK OFFICER MGAERTNER
COMMERCE FOR CENTRAL ASIA DESK OFFICER DSTARKS
BERLIN FOR TAX ATTACHE

SENSITIVE

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [PGOV](#) [KZ](#) [ECONOMIC](#)

SUBJECT: AMBASSADOR ORDWAY'S MEETING WITH FINANCE MINISTER
DUNAYEV

REFTEL: 04 ALMATY 5022

1. (U) Ambassador Ordway met with Kazakhstani Minister of Finance Arman Dunayev March 2 in Astana. The Ambassador pressed Dunayev for progress on ratification of the U.S.-Kazakhstan Bilateral Assistance Agreement and for prompt payment of the \$10 million award to AIG by an international arbitration body. Dunayev told the Ambassador that discussions were underway about possible compromises in the tax case against Parker Drilling and provided additional details about the GOK's revised concept for utilizing the National Fund. The latter subject prompted the Ambassador to encourage Dunayev to consider participating in the Extractive Industries Transparency Initiative (EITI.) End Summary.

2. (U) Also attending from the Finance Ministry were Deputy Chairman of the Tax Committee Asiya Bazarbekova and the head of the Department for International Taxation Murat Dzheksemin.

3. (SBU) Ambassador Ordway first raised the question of Kazakhstan's ratification of the 1992 Bilateral Assistance Agreement, and emphasized the principled U.S. position that no form of assistance funds should be subject to taxation. Ratification of the Agreement will commit Kazakhstan to this principle as well. Dunayev maintained that this question is the responsibility of the Ministry of Economy and Budget Planning. However, he did in the end acknowledge that the International Taxation Department's delay in producing an Implementing Memorandum that had been requested by the Ministry of Foreign Affairs was holding the process up. The Implementing Memorandum, after several extensions, is now due March 15.

4. (SBU) The Ambassador also pressed Dunayev to weigh in with his Ministerial colleagues to speed the process of payment to AIG of the \$10 million awarded in arbitration. He urged Dunayev to consider the serious effects that Kazakhstan's intransigence would have on its credit rating and international reputation if it persists in refusing to pay. Dunayev claimed to have no influence on this issue either, stating that the Ministry of Justice would not allow him to interfere -- although he clearly understood the potential threat to Kazakhstan's credit rating. He did say that the government has funds available within the budget to pay judgments of this type.

5. (SBU) Dunayev also mentioned that the Finance Ministry was in contact with U.S.-based Parker Drilling about a possible compromise in the company's tax troubles. Dunayev said that the Ministry was in contact with the company's lawyers and "American tax authorities."

Background: Parker Drilling operates a large floating oil rig called "Sunkar" that had a contract to provide services to the Kashagan consortium. The rig was brought to Kazakhstan free of customs duties because of its involvement with the consortium. The rig remained at the port of Bautino after the contract's completion in November 2003. In the spring of 2004, the authorities of Mangystau oblast (which contains Bautino) confiscated the rig and obtained a judgment against Parker for over \$6 million, arguing that the rig was subject to duties the moment the contract expired. Parker agreed to pay the \$6 million in November 2004. End Background.

6. (U) Finally, Dunayev updated Ambassador Ordway on the GOK's progress in implementing the new concept of the National Fund (reftel). Dunayev said that full implementation of the new concept may take until 2007 due to the significant changes it will require in the Budget Code. In addition to the information provided Reftel, he stated that the National Fund's contribution to the "development" budget will be organized as a three-year appropriation indexed to the consumer price index; and confirmed that the Fund would still be used to finance budget sequestration if

necessary. Dunayev opined that the new concept will make

the Fund substantially more transparent and enable it to contribute to the development of the non-oil sector. The Ambassador again recommended to Dunayev that the GOK consider joining the Extractive Industries Transparency Initiative (EITI) as part of the implementation of the new concept.

17. (SBU) Comment: We sought this meeting primarily to encourage the Finance Ministry to use its influence to effect ratification of the Bilateral Assistance Agreement and to create movement on the compensation issue for AIG. On the former issue, we believe the message was communicated on the urgency of completing the Implementing Memorandum, but we expect to get better traction by meeting with Minister of Economy and Budget Planning Kelimbetov. With respect to AIG, the Finance Ministry may understand the risks the GOK is taking with its current course but appears stymied by the Justice Ministry. We will likely need to advocate above the Ministerial level in order to prod the GOK into taking the necessary action. End comment.

Ordway

NNNN